

Report
of the
Examination of
Nationwide Assurance Company
Columbus, Ohio
As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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January 29, 2003

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Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

NATIONWIDE ASSURANCE COMPANY
Columbus, Ohio

and this report is respectfully submitted.

I. INTRODUCTION

The Insurance Department of California conducted the previous examination of the company in 1997 as of December 31, 1996. The company redomesticated to Wisconsin on July 15, 1997. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

An independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code, annually audits the company. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination. We also relied on the cooperation and work performed by the Ohio Department of Insurance.

Independent Actuary's Review

The Actuary from the Ohio Department of Insurance reviewed the loss and loss adjustment expense reserves of the Nationwide Group for adequacy. The results of her work was reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1934, as Colonial Mutual Compensation Insurance Company, under the mutual laws of California. In 1942, policyholders approved conversion from a mutual to a stock basis. Concurrent with the conversion from a mutual to a capital stock basis of operation, the corporate name was changed to Colonial Insurance Company. The words "of California" were added to the name in 1973. In 1997, the company redomesticated from California to Wisconsin and the name was changed to Colonial Insurance Company of Wisconsin. The name was changed in 1999 to the one currently used by the Company.

The company writes direct premium in the following states:

Virginia	\$ 93,906,137	21%
Ohio	75,808,719	17
Florida	62,348,085	14
New York	51,486,339	11
Pennsylvania	34,914,315	8
All others	<u>126,885,783</u>	<u>29</u>
	<u>\$445,349,378</u>	<u>100%</u>

The company had \$137 of premiums in Wisconsin. The company is licensed in the District of Columbia and all states except Hawaii, Massachusetts, Michigan, New Jersey, North Carolina and Texas.

The major products marketed by the company include private passenger auto liability and auto physical damage. The major products are marketed through Nationwide enterprise agency force.

The following table is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Private passenger auto liability	\$320,521,064	\$ 0	\$320,521,064	\$ 0
Auto physical damage	<u>134,828,315</u>	<u>0</u>	<u>134,828,315</u>	<u>0</u>
Total All Lines	<u>\$455,349,378</u>	<u>\$ 0</u>	<u>\$455,349,348</u>	<u>\$ 0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Nine directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Galen R. Barnes Columbus, OH	Chairman of the Board	2003
David K. Hollingsworth Westerville, OH	Senior Vice President	2003
David R. Jahn	Senior Vice President	2003
Gale V. King Gahanna, OH	Vice President	2003
George N. McKinnon	Vice President	2003
Michael D. Miller Westerville, OH	Vice President-Finance	2003
Kathleen D. Ricord Columbus, OH	Vice President	2003
Douglas C. Robinette Westerville, OH	Senior Vice President	2003
Richard M. Waggoner Westerville, OH	Senior Vice President	2003

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2001 Compensation
Galen R. Barnes	Chairman of the Board President and Chief Operating Officer	\$122,290
Robert A. Oakley	Executive VP-Chief Financial Officer	36,878
Robert J. Woodward, Jr.	Executive VP- Chief Investment Officer	
John R. Cook, Jr.	Senior VP-Chief Communications Officer	27,616
Carol L. Dove	Associate VP-Treasury Services and Treasurer	5,875
Glenn W. Soden	Associate VP and Secretary	4,248
John F. Delaloye	Assistant Secretary	3,393
Michael D. Maier	Assistant Treasurer	4,721
Daniel J. Murphy, Jr.	Assistant Treasurer	4,454

Salaries listed are allocated by employee estimates of time spent on Nationwide Assurance Company.

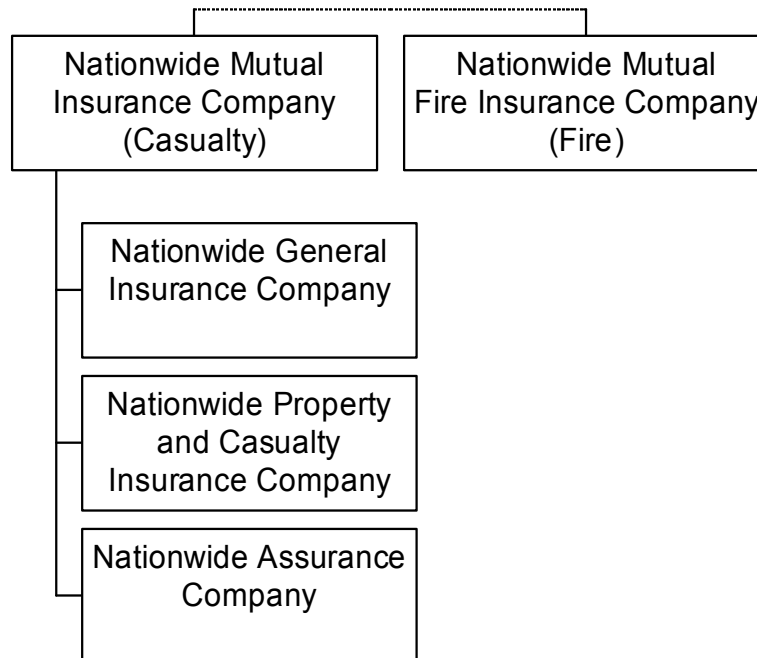
Committees of the Board

Although, the company's bylaws allow for the formation of certain committees by the board of directors, no committees had been formed at the time of the examination.

IV. AFFILIATED COMPANIES

Nationwide Assurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group that the company has agreements with or control Nationwide Assurance Company. As shown below, the Nationwide Group is ultimately controlled by two mutual insurers. Either or both Nationwide Mutual Insurance Company and/or Nationwide Mutual Fire Insurance Company directly or indirectly control all subsidiaries. A brief description of the significant affiliates of Nationwide Assurance Company follows the organizational chart.

**Organizational Chart
As of December 31, 2001**



Nationwide Mutual Insurance Company (NMIC)

NMIC provides primarily private passenger automobile and commercial multi-peril coverages to individuals and businesses in all states, except New Jersey, and in the District of Columbia, Puerto Rico, U.S. Virgin Islands and Canada. NMIC along with Nationwide Mutual Fire Insurance Company are the parents of NAC. NAC has a 100% quota share reinsurance agreement with NMIC. NAC has a Cost Sharing Agreement, Tax Sharing Agreement, and an Investment Agency Agreement with NMIC and Nationwide Advisory Services, Inc., a subsidiary of NMIC. As of December 31, 2001, the company's audited financial statement reported assets of \$18,553,363,751, liabilities of \$12,274,101,706, and

unassigned funds and special reserves of \$6,279,262,045. Operations for 2001 produced a loss of (\$167,648,917).

Nationwide Mutual Fire Insurance Company (NMFIC)

NMFIC provides primarily private passenger automobile and homeowners multi-peril to individuals in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. NMFIC is a party of the 100% quota share pooling reinsurance agreement and gets 11.3% of the pooled business. As of December 31, 2001, the company's audited financial statement reported assets of \$2,536,220,451, liabilities of \$1,383,175,026, and unassigned funds and special reserves of \$1,153,045,425. Operations for 2001 produced net income of \$78,050,405.

Nationwide General Insurance Company (NGIC)

NGIC provides, primarily from mass merchandising, private passenger automobile insurance. The company is part of the pooling agreement with NMIC and receives 0% of the pool back. As of December 31, 2001, the company's audited financial statement reported assets of \$19,152,323, liabilities of \$201,462, and unassigned funds and special reserves of \$18,950,861. Operations for 2001 produced net income of \$871,608.

Nationwide Property and Casualty Insurance Company (NPCIC)

NPCIC provides primarily non-standard private passenger automobile policies and commercial multi peril. The company is a party in the 100% quota share pooling agreement with NMIC and receives 0% of the pooled business. As of December 31, 2001, the company's audited financial statement reported assets of \$22,850,611, liabilities of \$295,136, and unassigned funds and special reserves of \$22,555,475. Operations for 2001 produced net income of \$1,223,820.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

Type:	100% Quota Share
Reinsurer:	Nationwide Mutual Insurance Company
Business Covered:	100% of all liabilities, net of existing reinsurance
Period:	January 1, 1994 continuously until 90 day notice of termination
Premium:	100% of net premium
Cancellation:	Upon 90 days notice by either party.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Nationwide Assurance Company
Assets
As of December 31, 2001

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$63,020,526	\$	\$	\$63,020,526
Stocks:				
Common stocks	566			566
Cash	35,959			35,959
Short-term investments	732,718			732,718
Other invested assets	500,000			500,000
Receivable for securities	13,888			13,888
Interest, dividends, and real estate income due and accrued	<u>1,012,844</u>	<u> </u>	<u> </u>	<u>1,012,844</u>
Total Assets	<u>\$65,316,501</u>	<u>\$ </u>	<u>\$ </u>	<u>\$65,316,501</u>

Nationwide Assurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Federal and foreign income taxes	\$ 325,072
Amounts withheld or retained by company for account of others	4,929,460
Payable to parent, subsidiaries, and affiliates	<u>1,587,579</u>
Total Liabilities	6,842,111
Common capital stock	3,500,000
Gross paid in and contributed surplus	38,000,000
Unassigned funds (surplus)	<u>16,974,390</u>
Surplus as Regards Policyholders	<u>58,474,390</u>
Total Liabilities and Surplus	<u>\$65,316,501</u>

**Nationwide Assurance Company
Summary of Operations
For the Year 2001**

Investment Income	
Net investment income earned	\$4,432,447
Net realized capital gains or (losses)	<u>(9,006)</u>
Net investment gain or (loss)	4,423,441
Net income (loss) before dividends to policyholders and before federal and foreign income taxes	<u>4,423,441</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes	4,423,441
Federal and foreign income taxes incurred	<u>1,550,498</u>
Net Income	<u>\$2,872,943</u>

Nationwide Assurance Company
Cash Flow
As of December 31, 2001

Other underwriting income (expenses)	<u>\$(682,367)</u>	
Cash from underwriting		\$(682,367)
Investment income (net of investment expense)		4,459,833
Other income (expenses):		
Net amount withheld or retained for account of others	<u>1,290,428</u>	
Total other income		1,290,428
Deduct:		
Federal income taxes paid (recovered)	<u>1,640,041</u>	
Net cash from operations		\$3,427,853
Proceeds from investments sold, matured, or repaid:		
Bonds	7,238,750	
Miscellaneous proceeds	<u>17,112</u>	
Total investment proceeds		7,255,862
Cost of investments acquired (long-term only):		
Bonds	<u>7,967,262</u>	
Total investments acquired		<u>7,967,262</u>
Net cash from investments		(711,400)
Cash provided from financing and miscellaneous sources:		
Capital notes, less amounts repaid	<u>2,062,398</u>	
Total		2,062,398
Net cash from financing and miscellaneous sources		<u>2,062,398</u>
Net change in cash and short-term investments		4,778,851
Reconciliation		
Cash and short-term investments, December 31, 2000		<u>(4,010,172)</u>
Cash and short-term investments, December 31, 2001		<u>\$ 768,679</u>

Nationwide Assurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets	\$65,316,501	
Less liabilities	<u>6,842,111</u>	
Adjusted surplus		\$58,474,390
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (or deficit)		<u>\$56,474,390</u>
Adjusted surplus (from above)		\$58,474,390
Security surplus:		
(140% of compulsory surplus, factor reduced 1% for each		
\$33 million in premium written in excess of		
\$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security surplus excess (or deficit)		<u>\$55,674,390</u>

Nationwide Assurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	\$16,282,070	\$44,221,811	\$53,010,013	\$50,961,043	\$55,987,592
Net income	1,397,809	5,059,977	7,107,082	3,075,248	2,872,943
Net unrealized capital gains or (losses)		(566)	212		(66,957)
Change in net deferred income tax					85,812
Change in non-admitted assets	(3,227,285)	3,589,500	1,037,463	2,082,710	
Change in provision for reinsurance	(92,072)	92,072			
Cumulative effect of changes in accounting principles					(405,000)
Surplus adjustments:					
Paid in	30,000,000				
Net remittances from or to home office					
Dividends to stockholders			(4,000,000)		
Write-ins for gains and (losses) in surplus:					
Change in excess statutory reserves over statement reserves	(49,000)	44,000	5,000		
Accounts Payable	(46,680)	48,574			
Discontinued Lines	(43,031)	(45,355)			
Miscellaneous Liabilities			(6,198,727)		
Prior Period Adjustment				(131,409)	
Surplus, end of year	<u>\$44,221,811</u>	<u>\$53,010,013</u>	<u>\$50,961,043</u>	<u>\$55,987,592</u>	<u>\$58,474,390</u>

Nationwide Assurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios

	Ratio	1997	1998	1999	2000	2001
#1	Gross Premium to Surplus	997%*	744%	660%	697%	779%
#2	Net Premium to Surplus	74	63	0	0	0
#3	Change in Net Writings	1	2	-99*	0	0
#4	Surplus Aid to Surplus	3	0	0	0	0
#5	Two-Year Overall Operating Ratio	96	89	84	0	0
#6	Investment Yield	5.5	8.7	7.6	8.2	7.3
#7	Change in Surplus	153*	19	-8	10	4
#8	Liabilities to Liquid Assets	82	70	26	7	10
#9	Agents' Balances to Surplus	3	2	0	0	0
#10	One-Year Reserve Devel. to Surplus	-3	-1	-2	0	0
#11	Two-Year Reserve Devel. to Surplus	-3	-6	-3	-2	0
#12	Estimated Current Reserve Def. To Surplus	3	34*	0	0	0

Ratio No. 1 measures the Gross Premium to Surplus percentage. The result was exceptional in 1997 due to its share of the pool growing faster than surplus. The exceptional result for the Change in

Surplus ratio in 1997 is due to a \$30,000,000 capital contribution made to keep the Gross Premium to Surplus ratio below 1000%, a requirement for the company to redomesticate to Wisconsin. In 1998 the company no longer participated in the Nationwide Pool and established a 100% Quota Share reinsurance contract with Nationwide Mutual Insurance Company. This caused the unusual result for Ratio No. 12 Estimated Current Reserve Deficiency To Surplus in 1998. This agreement also caused Ratio No. 3 Change in Net Writings to be exceptional in 1999.

Growth of Nationwide Assurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1997	\$126,817,758	\$82,595,947	\$44,221,811	\$1,397,809
1998	111,196,477	58,186,464	53,010,013	5,059,977
1999	67,646,313	16,685,270	50,961,043	7,107,082
2000	60,404,418	4,416,827	55,987,591	3,075,248
2001	65,316,501	6,842,113	58,474,390	2,872,943

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1997	\$440,981,766	\$32,703,246	\$32,208,792	77.0%	27.5%	104.5%
1998	394,529,626	33,362,171	33,354,267	80.3	27.8	108.1
1999	336,193,757	(10,098,847)	0	0	0	0
2000	390,256,200	0	0	0	0	0
2001	455,349,378	0	0	0	0	0

The change between 1998 and 1999 was due to the company not participating in the Nationwide Pool. Instead, the company entered into a 100% quota share agreement with NMIC. Admitted assets have been in the \$60 million range since the change. Surplus has grown from \$51 million in 1999 to \$58 million in 2001. The company has been profitable for all years under review.

Reconciliation of Surplus per Examination

There were no adjustments or reclassifications as a result of this examination:

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report as of December 31, 1996 prepared by the California Insurance Department.

Summary of Current Examination Results

Affiliated Agreements

The company had an Investment Agency Agreement with its parent that was not submitted to the Office of the Commissioner of Insurance, pursuant to s. Ins. 40.04 (2) Wis. Adm. Code. It is recommended that the company submit all affiliated agreements before implementation, pursuant to s. Ins. 40.04 (2), Wis. Adm. Code. Prior to the adoption of this report, the company submitted, and after some changes were made to the agreement, the Office of the Commissioner of Insurance did not disapprove of the contract.

Articles and By-Laws

The company reported a change to the bylaws in their board minutes. It also noted the change with the state of Florida in their 2001 Annual Statement footnote. However, the company did not file the changes with the Wisconsin Office of the Commissioner of Insurance within 60 days after adoption, pursuant to s. 611.12 (4) Wis. Stat. It is recommended that the company file changes to its articles and bylaws, within 60 days of such changes, pursuant to s. 611.12 (4) Wis. Stat. Subsequent to the adoption of this report, the company did file the change to its bylaws with the Office of the Commissioner of Insurance.

VIII. CONCLUSION

The company cedes 100% of its business to a parent, NMIC. Surplus has grown 32.2% from \$44,221,811 to \$58,474,390 during the period under examination. In 1997, the company received paid in capital of \$30,000,000 in order to reduce the ratio of gross premium written to surplus, which was one of the requirements to redomesticate to Wisconsin. Assets have decreased from \$126,817,758 at year-end 1996 to \$65,316,501 at December 31, 2001. The decrease is mainly due to the company no longer participating in the Nationwide Pool and ceding 100% to NMIC. The company has been profitable for all years under review.

There were no specific comments and recommendations in the previous examination report as of December 31, 1996 prepared by the California Insurance Department.

There are two current recommendations listed in the next section of this report.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Affiliated Agreements—It is recommended that the company submit all affiliated agreements before implementation, pursuant to s. Ins. 40.04 (2), Wis. Adm. Code.
2. Page 21 Articles and Bylaws— It is recommended that the company file changes to its articles and bylaws, within 60 days of such changes, pursuant to s. 611.12 (4) Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

Subsequent Events

An affiliate of the parent, NMIC, Nationwide Financial Services, Inc. (NSF) has an agreement to buy the Provident Mutual Life Insurance Company through a sponsored demutualization. Presently, approximately 82% of NFS, a public company, is owned by the Nationwide Corporation, which is approximately 95% owned by the company.

Nationwide Corporation reduced its interest in NFS by exchanging Class B shares it previously owned (valued at \$362.8 million) for 100% interest in Gartmore Global Investments, Inc. and Nationwide Securities Inc.

Also associated with the transactions, Nationwide Global Holdings, Inc. transferred Gartmore Global Asset Management Trust (GGAMT) to Nationwide Corporation and Nationwide Corporation then authorized a dividend of Gartmore Global Investments, Inc. to GGAMT.